Some Interesting Angles

of the

Federal Retirement System

UNITED STATES CIVIL SERVICE COMMISSION

Pamphlet 13

OCTOBER 1946

SOME INTERESTING ANGLES OF THE FEDERAL RETIREMENT SYSTEM

Part One

Many inquiries have been received about the retirement arrangement which the Civil Service Commission calls the "separation-annuity". The following type of question frequently arises: "I have almost five years service in the government, but I expect to be dropped in a reduction in force soon, and I am wondering what to do about the 5% of my pay I have been putting into the retirement fund. Should I leave the government entirely and ask for a refund now, or should I try to get a transfer so as to complete my five years and qualify for an annuity?" Such questions usually come from people who do not plan on civil service as a career, perhaps, but who, having put in a number of years in government war assignments, are "on the fence" about staying in just long enough to get over that five year "hump" they have heard about.

The Commission's Retirement Division gives this simple illustration to show the effects of both continuing work, and of leaving the service and requesting refund. "Using as an example a 20-year old man who was appointed on February 1, 1942 to a position paying $2,000 a year and who continues to serve at that salary for, say, four years and eleven months before being dropped, he will be entitled to $532 in the form of a refund. However, if this same employee gets another Federal job under the scope of the Retirement Act, completes his five years and is then dropped, he will earn an annuity of $157 a year payable from the time he is 55 during the rest of his life."

Inasmuch as the actuary's life expectancy table shows that, at 55, this person has a good chance of living another 19 to 20 years, it seems a worthwhile thing to finish out the five years and take advantage of the investment. So long as the deductions for the service are made, and the government provides the interest and the additional amount it contributes to form the annuity, the employee cannot lose. The

return, to be true, comes in small packages and may be a long time hence, but from a common sense and good business standpoint, the employee stands to come out ahead every time.

In connection with this business of completing five years service, frequent gripes are heard from employees who, having served that long, have come up against the rule prohibiting them from getting a refund of money in their retirement accounts. The case of Mrs. H, formerly employed in Treasury for five and one-half years, is typical. She writes: "I have about $400 to my credit in the civil service retirement system, but they tell me that because I have worked five years for the government I have to leave all my money in the fund except that which was deposited before January 24, 1942. People who don't complete five years service can get a refund if they want it; why can't those who work a little longer get their money out?"

The obvious answer is that the Civil Service Commission is merely complying with the law on the matter when it retains the deductions made after that 1942 date. This money remains in the fund, drawing 3% interest until retirement age is reached, at which time it comes back in the form of an annuity having had added to it the government's contribution, which is much the greater part. What appears to be behind the law is an effort to provide some form of old age benefit for government workers to offset the loss they might otherwise realize by not having been contributing to old age insurance under the Social Security Act, which Act does not cover Federal workers. The law has to set some time period after which the money stays in the fund, and 5 years was decided upon in the legislation. Sometimes a person doesn't realize that he has completed 5 years Federal service. The Retirement Act provides that active military service, civil service for which deductions were made, plus service for which deductions were NOT made, all have to be counted.

Speaking of refunds, there was, until recently, a period of a year or so during which thousands of ex-Federal civil servants who wrote to the Civil Service Commission asking

for their retirement money, had to wait months for their checks. This situation has been cleared up and the Retirement Division is in a position to offer three weeks' service on any ordinary refund claim. What happened was that following V-J Day, there was a general exodus of government workers who had accepted war-service jobs during the fight and who wanted to quit or to let reduction-in-force action take its course, and go back home. So many claims came in so suddenly that the Commission, already short on personnel and space, was swamped with correspondence and refund requests. At the height of the tie-up this past March, the Retirement Division had 300,000 claims on hand to process. During the fiscal year just ended, the division cleared up more than 1½ million refunds, with 182,000 of these processed in June alone. It took a lot of additional employees, plus much overtime, and a fight for special funds to get the job done, but now, Warren B. Irons, Retirement Chief, says, "The battle of the refunds has been won."

Two things to remember about your retirement deductions if you have less than five years service and do not intend to make the government your career:

(1). If you serve less than five years you should request refund of the money in your account - it does not draw interest, nor does the government add anything more to it after you get out;

(2). If you resign with less than five years service, the $1 a month tontine will be retained in the fund, but if you are dropped in a reduction-in-force, you will get back all your money - in both instances, however, you are entitled to the 4 percent interest your deductions earned if you have served more than a year.

Part Two

Doubling your money sounds like you have made a good

investment, and investing in a government fund is a safe proposition. That is what you Federalites have in the Civil Service Retirement and Disability Fund, in case you hadn't noticed. According to the Civil Service Commission's Retirement Division, an employee who makes voluntary contributions to his account to purchase additional annuity when he retires can more than double his money on a 25 year basis. It boils down to this: If you should add $1000 to your retirement fund now, through interest it will grow to $2094 in 25 years. This rate of increase holds for any amount you put into the fund over that period of time.

The smallest voluntary contributions you can make is $25.00, and the total contributed cannot exceed 10 per cent of the basic salary you have earned in the government since August 1920. Thus if your basic salary has totalled $28,000 to date, you could invest $2800. These contributions earn 3 percent all during your service. If you have worked five years, or more, and then are separated from the service, all the money in your account - including these voluntary contributions - continues to accumulate interest at 3 percent until retirement time. See the charts on pages 8 and 9.

Voluntary contributions can be withdrawn any time you leave the Federal service. This feature, plus the interest dividends, make the arrangement attractive as a safe and lucrative banking proposition.

The privilege of making voluntary contributions to your account in the retirement fund is not new; in fact, it started in 1940. Since that time, government workers have put more than $5,000,000 into their accounts in this manner. An unusual case in this connection is the man who, during his government career, deposited $20,000 with which to purchase a higher annuity upon retirement; he retired last year at 70, and that extra contribution added $2000 a year to his otherwise already substantial annuity.

For every thousand dollars added to the account, a man

retiring at age 62 gets back about $79 a year over his regular annuity. This doesn't sound very high, but remember - according to the actuaries and insurance experts - you are supposed to live another 15 years beyond age 62 (if you don't, sue 'em!).

It is pointed out that if a young Federal employee can see his way clear to put only $100 a year into his account, but keeps that moderate rate going for 30 years until he retires at 60, he will have deposited $3000 - and it will have grown to $4900 through interest. If the same chap "happens to have" his whole $3000 to deposit when he first joins the service, it will have shot up to more than $7200 by the time he retires.

A number of people have asked what is done with the money on hand in the Retirement Fund - where it is kept, and how it is used in order to bring about the interest it earns. The cash is in the counting-house; the Treasury has the money safely behind numerous walls, doors, bars, and stolid-faced, Washington-hardened guards. Under the law, the Secretary of the Treasury "shall invest from time to time, such portions of the civil-service retirement and disability fund as in his judgment may not be immediately required for the payment of annuities, refunds ..."

As an investor, the Secretary of the Treasury pulls no punches. Of approximately 2 1/7 billion dollars in the Retirement Fund, he is now investing about two billions at 4 percent; he has another $3\frac{1}{2}$ million or so at work at 3 per cent (the latter is your voluntary contributions). Now you say, what kind of investments - AT&T? American Can Company? General Motors? Nothing like that; the law says "invest in securities of the United States", and that is what Mr. Secretary Snyder buys from himself - U. S. bonds.

Question: I am leaving civil service soon; how do I go about getting my retirement money refunded?

Answer: Ask your personnel office for the retirement refund application, Form 3005, and follow instructions.

If you have more than five years service (including armed forces) you can't get anything out except what may have been deposited before January 24, 1942; if you have less than five years service, refund for the entire period may be paid.

Question: What is a "deposit to cover prior service?"
Answer: This is money paid into your retirement account to cover periods of Federal service for which no deductions were made. For example, you may have worked for the Reconstruction Finance Corporation before it came under the Retirement Act; you can put money into your account at any time to make up for the deductions not made when you worked there.

Question: Is it necessary to make deposits to the retirement fund to get credit for service performed in an agency which was formerly not under the Retirement Act?
Answer: No. You get credit for the time you worked in the Federal agency, regardless of whether you make any deposit. However, your annuity - which is computed on the basis of all Federal service - will be reduced by the amount the deposit would have purchased had you put it in. Any deposit you make to cover prior service draws 4 percent interest, so it is a good investment.

Part Three

Most people do not realize - and the veterans themselves are among them - that a disabled veteran who draws disability pension from the Veterans Administration may also be entitled to disability retirement annuity under the terms of the Civil Service Retirement Act if he has a total of five years or more Federal service. The five years can include honorable service in the armed forces.

Suppose a person left a civilian position under the Retirement Act to go into military service; he had 10 years civil service behind him, and adds four years military service to that. If he sustains a disability during, or as a

result of the war, he can draw not only the Veterans Administration pension, but a civil service disability annuity based on 14 years Federal service as well.

Two laws have been enacted by the present Congress which are distinctly helpful to World War II veterans from the standpoint of their civil service retirement rights.

The first one, passed November 9, 1945, preserves the retirement rights of a civilian employee who goes into the military service. The law says that he is not to be considered as having left his civil service position, so far as his retirement status is concerned.

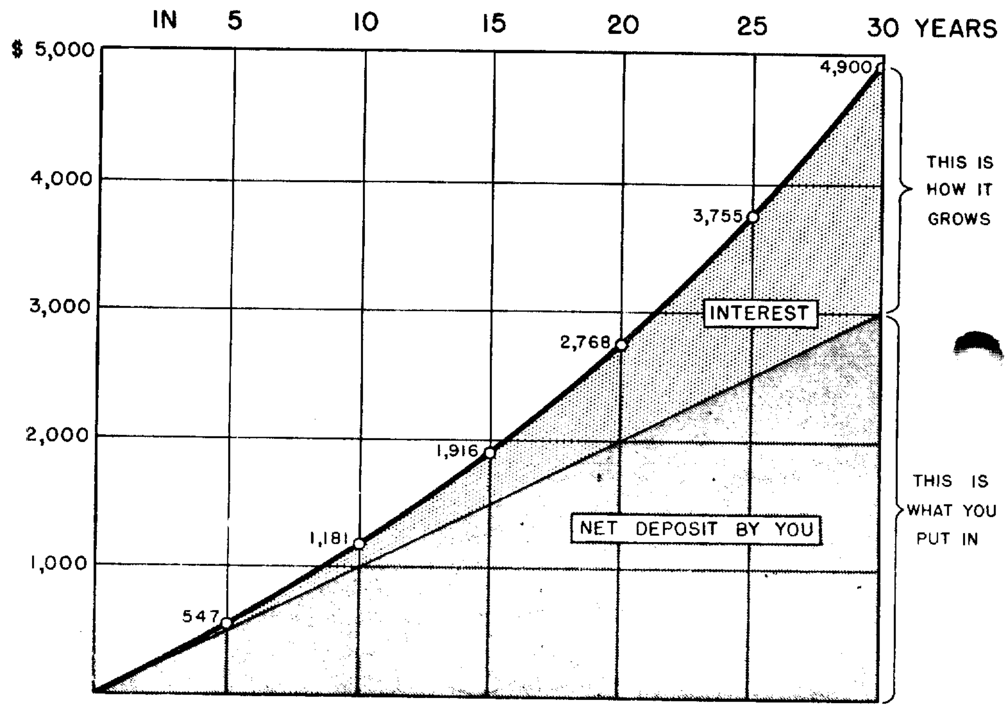
This amendment to the Retirement Act was suggested by the Civil Service Commission primarily to protect veterans who became disabled while in the military service. Under a previous ruling, the veteran could not apply for or receive disability retirement benefits under the Retirement Act unless he actually returned to his civilian job. In other words, he was considered as separated until he was on the job again. Because the Selective Service and Training Act requires that returned veterans must be physically qualified to perform the duties of the positions before they may return to them, many returned veterans who had been injured while serving their country were caught in this conflict of requirements.

For example, a veteran who had lost a leg in the military service obviously could not return to his former position as mail carrier, or for that matter in countless other jobs. A man might have been blinded in service. Ordinarily, he could not return to his former position, and thus, before passage of this amendment, he was being penalized for serving his country instead of receiving the protection to which he was entitled. The same thing was true with a person on military duty who reached optional retirement age during military service. He could not receive any benefits unless and until he actually returned to duty.

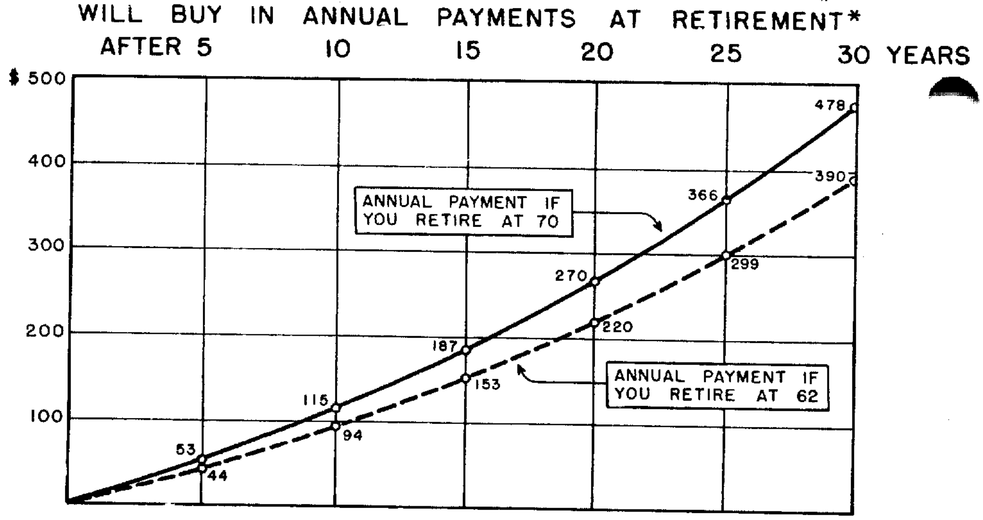
Approved For Release 2002/01/31 : CIA-RDP57-00384R000500140012-1

THE STORY OF VOLU

THIS IS HOW ANNUAL CONTRIBUTIONS OF $100 GROW



THIS IS WHAT YOUR ANNUAL CONTRIBUTIONS OF $100 WILL BUY IN ANNUAL PAYMENTS AT RETIREMENT*

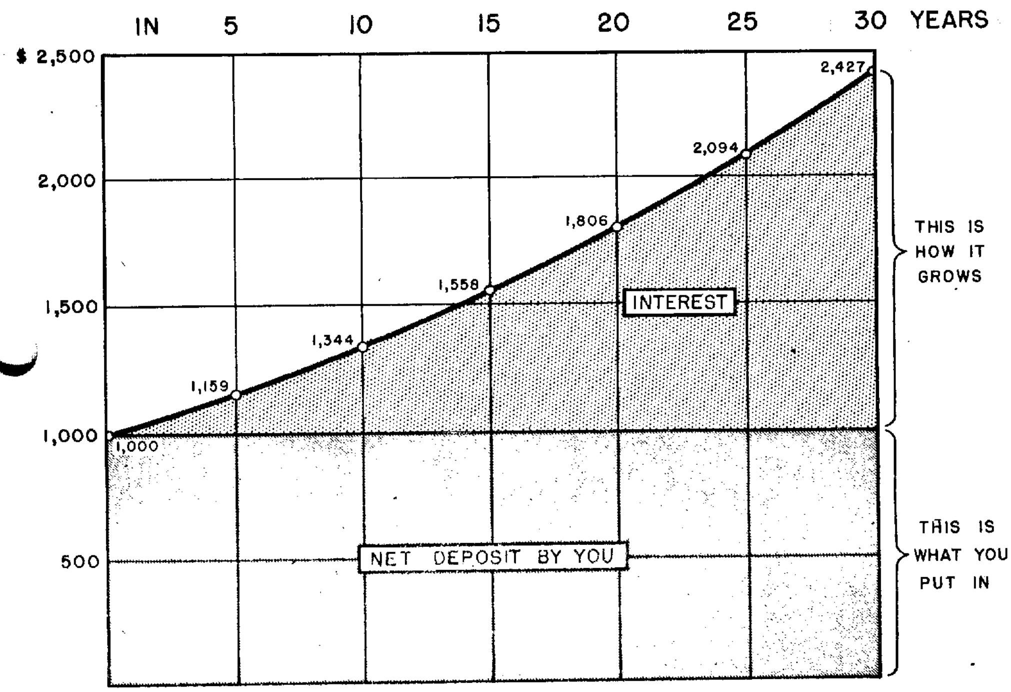


Approved For Release 2002/01/31 : CIA-RDP57-00384R000500140012-1

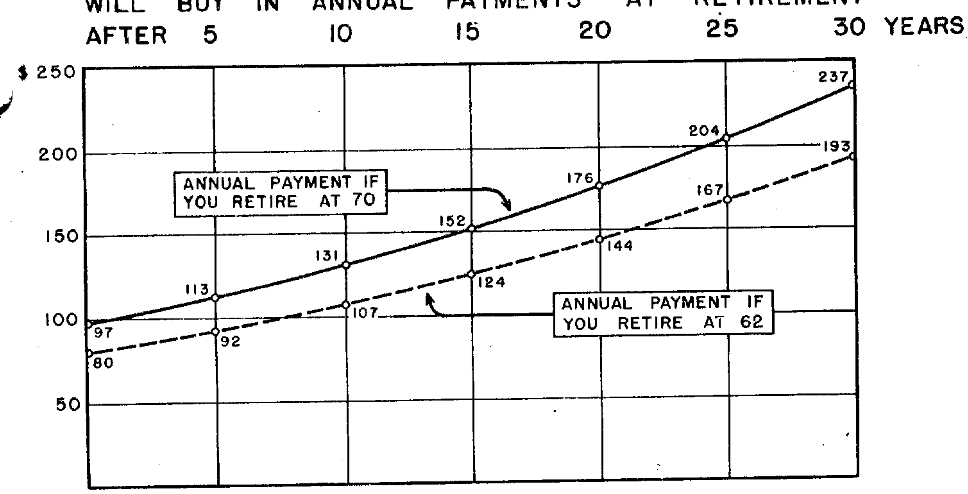
*Male nonforfeiture

NTARY CONTRIBUTIONS

THIS IS HOW A SINGLE CONTRIBUTION OF $1000 GROWS



THIS IS WHAT YOUR SINGLE CONTRIBUTION OF $1000
WILL BUY IN ANNUAL PAYMENTS AT RETIREMENT*



*Male nonforfeiture

By the terms of the new law, all World War II veterans and all Federal employees in jobs under the Retirement Act who enter the military service during the war or the emergency period can apply for civil service disability retirement on the basis of a disability incurred while in, or as a result of the armed forces services, without having to actually return to the civilian job. This situation applies to veterans who have five or more years of service (civilian and military) to their credit, as five years is the minimum service requirement before an employee may apply for disability retirement.

A second amendment to the Retirement Act affecting veterans vitally was passed December 21st last year. Under this law, a veteran who left his civilian position to enter the military service is entitled to full credit for the entire period of his military service toward civil service retirement without having to make any contribution to his retirement account for that period. This means that the veteran's military leave period is credited as civilian service without deposit.

Prior to the passing of this amendment the veteran who left a civil service job to perform armed forces duty could be credited only with six months service for each calendar year of absence. Now he gets full credit for the time away from his civilian job, and, as a matter of fact, he does not even have to come back to his civilian work to receive this credit. All that is necessary for him to receive full credit for the leave period is for the records to show that he left his civilian position to enter the armed forces.

The veteran <u>may</u> have the period of his services in the armed forces credited as military service by making appropriate deposit in his retirement account, but generally he will not want to do this, as it would be beneficial to him only where the base pay he got in the armed forces would increase the average salary used in the computation of his annuity when he retires. This can generally only be determined upon retirement. For instance, a low-salaried civilian employee might have served in the military service as an

officer receiving a much higher rate of pay than he had, or ever would receive as a civilian worker. It might be advantageous in this case for him to make deposit for the military service, thus allowing him to receive the benefit of the higher rate of pay in computing his average salary for annuity purposes. He can make such deposit when the time comes to retire, however, and that is probably the best time to consider the proposition.

Part Four

Every so often someone suddenly wakes up to the fact that he has more Federal service to his credit than he had figured. Usually this is a case of forgetting that military service can be counted as part of the career of a civil service employee. Consequently, although he might think he is entitled to a refund of retirement deductions because of less than five years service, he has actually passed that mark and earned for himself an annuity payable some years hence.

The Civil Service Commission, through the issuance during the first week in August of a new section of the Federal Personnel Manual - the personnel directors' Baedeker - has instructed all agencies as to exactly what constitutes Federal service creditable toward retirement.

The new section contains a list of the organizations in which employment is considered to be Federal work. One interesting item appearing in this material is that employment in the Prencinradio, Incorporated, is creditable toward retirement. In fact, even the name of said corporation will be a surprise to most people.

Prencinradio (combining the Spanish "prensa" - press - with cinema and radio) was a hush-hush outfit (incorporated under the laws of Delaware, by the way) which operated under the now extinct Office of Inter-American Affairs during the recent war. It was in the process of dissolution in July 1946. Prencinradio had two war-time projects; one was to

aid Mexico to produce better pcitures to be used in combatting Axis Spanish-speaking films, and the other was to aid radio stations in South America in combatting Axis radio propaganda.

Employees of the Tennessee Valley Authority are not within the competitive civil service; they have their own retirement system and do not contribute to the general civil service retirement fund. If a TVA-er should later serve in another organization under the Civil Service Retirement Act, however, he can count his TVA time toward retirement and make deposit therefor, if he wants to, provided he is not drawin a TVA pension.

This situation holds true also in the case of DC police and firemen, and the employees of a number of other agencies. When service is computed for retirement purposes, all civilian service rendered in or under the Federal Government, in the D. C. Government, and honorable active service in the armed forces is counted if it does not form the basis for some other pension. This includes service in all three branches of the government, the legislative and judicial as well as the executive. The type of appointment - whether temporary, indefinite, permanent, classified or unclassified - makes no difference so far as the time element is concerned.

There is a peculiar category of Federal employees known as "cooperative" workers. By this it is meant not merel that these folks are sociable, but that they are appointed on a cooperative basis, like other people receive "temporary" or "war-service" appointments. The Fish and Wildlife Service of Interior employs cooperative workers. Hunters, they are! It seems that the Predator and Rodent Control Division hires men to dispose of coyotes and jack-rabbits and such. They work in cooperation with States' pest control activities. The service of part-time Federal employees is creditable toward retirement. In some agencies there are part-time workers who have a working arrangement whereby they serve Uncle Sam for a few weeks and then for a similar period are on furlough doing something else. During the war, the

Army hired part-time employees at the Materiel Division at Wright Field. They alternated their efforts between working for the government at the air field and attending Antioch College. This was entirely agreeable to the Army - it being short of specially qualified personnel at the time - because it afforded the opportunity to develop young persons in the field of the scientific and technical aspects of aeronautics. All service performed under such appointments is creditable for retirement purposes and can be included in the Federal careers of those war-time employee-students when they enter the government on a permanent basis.

The Civil Service Commission gives credit toward retirement for service in the government-owned corporations such as RFC, HOLC, and the Inland Waterways Corporation. It is not generally known, but there were Federal employees in the management of the New York World's Fair, and their service is creditable, also.

And to top it off, one can include in his computation of Federal service any time spent as a lamplighter in the Coast Guard!

Part Five

The Treasury sends retirement checks to more than 85,000 people each month. About 200 of these folks have been on the annuity-receiving end since the Retirement Act took effect 26 years ago; their average age is 86 years.

Retired men outnumber the women 5 to 1, because (a) not very many women make the government their career, and (b) before the first World War, when many people now on the retired list first started government work, the employment of women generally was still in the early stages of development. Now, women constitute about 30% of the Federal payroll.

Nearly half of all the citizens drawing civil service retirement pay formerly worked for the Post Office Department. Hundreds of letter carriers retire each year, having braved through rain and snow, sleet and cold.

The youngest annuitant is a 25-year old woman who suffered a disability; among the oldest retired persons are 20 who are over 95 years of age.

What do these people get for their long and faithful service? A retirement income. How much do they receive? That depends on a number of factors. An annuity is computed on the basis of:

(a) Deductions contributed by the employee
(b) Amount contributed by Uncle Sam
(c) Employee's length of service
(d) Employee's age at retirement
(e) Employee's highest 5-year average income

According to the Civil Service Commission's Retirement Division, there are three general types of Federal career workers: (a) the chap who starts at a low salary--around $1200--and doesn't ever get much more than CAF-5 or the equivalent, (b) the one who starts low and makes slow, steady progress until after 30 years he is in the $6500 or higher class, and (c) the scientific or technical worker who commences in the medium professional grades--around $3000--and goes up a few grades and remains there.

If you are in the first category and your best average for any five consecutive years during your 30 years service ranges between $1600 and $2800, you cannot get less than $1200 a year in your annuity. A person of the second group mentioned whose best 5-year average during 30 years is $6500, will have a $2786 annuity starting at age 60. This assumes that deductions have been made for all your service since August 1, 1920. This (30 years service and retirement at 60) is the type of service and annuity most career workers aim for, according to the Retirement Division. The longer you work and the more you earn (and contribute to the fund) the larger the annuity you will enjoy.

There are a number of conditions under which you can be retired with an income under the Civil Service Retirement Act. The compulsory age for retirement is 70 for those who

have served the government for 15 or more years. Occasionally, in the public interest, the continued service of a person who has reached this point is authorized. Those who have not completed 15 years of service by their 70th birthday can continue working until they do serve that long if their condition permits.

Employees have the privilege of electing retirement at ages earlier than 70, as follows:

(a) At age 60 with 30 years service
(b) At age 62 with 15 years service
(c) Between the ages of 55 and 60 with 30 years service, but on a reduced annuity.

A person can retire after five years service because of a disability provided an official medical examination discloses a total disability which prohibits the performance of useful and efficient work. The disability need not be caused by official duties, but it must not be the result of misconduct or vicious habits. In a disability case resulting from on-the-job injury, the individual must choose either civil service disability retirement payments, or allowances from the Employees' Compensation Commission; he cannot have both at the same time. Depending upon the circumstances, it may behoove him to accept the ECC allowance for a time, while undergoing hospitalization or special treatments, and then change to the retirement annuity later.

An annuity is also due the employee who serves five or more years and then is separated from the government. If he resigns, or is dropped for cause, his annuity cannot begin earlier than age 62. If the employee departs in a reduction in force, or is otherwise separated through no fault of his own, he is entitled to full annuity at age 62, or a reduced annuity commencing when he is 55, as he chooses.

A number of Federal employees have inquired about what size annuity they can plan on if they get such-and-such salary and work 30 years for Uncle Sam, retiring at 60-- which is currently the most popular age for retirement. A

That statement cannot be made to one and all in this regard. The Civil Service Commission has three plans of computing annuities; their use is dictated by the circumstances of each individual case. In any event, the Commission gives each retiring employee the benefit of whichever plan produces the best annuity.

You might want to make an estimate of your annuity, following these 30-year, age 60 formulas and then selecting the result which gives you the most money:

<u>Plan I</u> This is applicable mostly to workers getting $1200 or less. The government contributes $30 per year for each year of service, not exceeding 30 years. This gives you $900 for 30 years; add to this the amount your credit in the fund will buy and the result is your annuity.

<u>Plan II</u> Multiply your best 5-year average income (but not exceeding $1600) by 30 years, and divide the result by 40.

<u>Plan III</u> Multiply your best 5-year average by 30 years and divide by 70.

# # #

These articles, prepared by the Information Division of the U. S. Civil Service Commission, originally appeared in Jerry Kluttz's column in the Washington Post during the week of October 13, 1946.